4/8/87 C0175-1

American Banker

The Daily Financial Services Ne

155389000015 8/15/05 C11
STATISTICAL REFERENCE INDEX
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VOL. CLII NO. 67 Tuesday, April 7, 1987

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Random Thoughts

By SANFORD ROSE

At the bank holding company conference held last week in Washington, D.C., by the Banking Law Institute, Marshall Davidson, a managing director of Drexel Burnham Lambert, advanced the challenging notion that banks can raise their stock prices by the sale of their nonperforming assets.

It seems clear that the overhang of nonperformers is one of the principal factors depressing the ratio of market values to book values. Investors obviously discount the common stock of banks by an amount equal to the difference between the book value of the impaired assets and their perception of true value.

This discounting process of course raises the cost of bank capital, which is defined as the inverse of the price-earnings multiple. Banks are in effect being forced to fund low-yielding or no-yielding nonperformers with equity money whose cost has been lifted to outsize levels by the very existence of these nonperformers.

If banks could dispose of their nonperformers, the market-to-book

Random Thoughts: Page 4 ➤

Banks 'Blame It on Rio,' But Analysts See Other Reasons for Lower Earnings

By JOHN P. FORDE

NEW YORK — Brazil's economic woes have presented banks with a ready excuse for lower first-quarter earnings, but analysts say domestic factors, such as narrower net-interest spreads, would have dampened results at major banks anyway.

The results should be better at regional banking companies, however, since these banks, especially in New England, in the Southeast, and on the West Coast, show strong asset growth.

Carole Berger, an analyst at Cyrus J. Lawrence Inc., says that major money center banks have decided to "blame it on Rio" in the first quarter. The companies have reversed interest payments on Brazilian debt because of the moratorium that country imposed on foreign debt payment in February. In reversing payments, the companies admitted that some interest included in the fourth quarter on these loans was not received.

Some of the banks that have announced they will switch Brazilian debt to nonaccrual status include J.P. Morgan & Co., Manufacturers Hanover Corp., and Chase Manhattan Corp.

All analysts agree that the change in the status of Brazilian loans will take a sizable chunk out of first-quarter earnings. However, they also believe that the reversal of interest on Brazilian debt may not cover all the reasons for major banks' earnings shortfalls in the first quarter. Most say that the performance of other areas from which banks derive their earnings seemed brighter at this time last year.

"Earnings for the first half, and more specifically, for the first quarter of last year, were robust," said Ms. Berger. In the first half of 1986, banks enjoyed healthy net-interest margins because of declining interest rates. This decline in rates also helped make bond trading profits "much easier to come by" during that quarter, she said.

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Treasury Issues New Rules on Cash Reporting

Record Keeping Will Be Laborious for Banks

By JAY ROSENSTEIN
Washington Bureau

WASHINGTON — The Treasury Department on Monday announced tougher transaction-reporting requirements for financial institutions as part of the government's crackdown on money laundering.

The rules, which take effect within 90 days, will make it more laborious for banks to handle large-dollar transactions. But the measures are considered less burdensome for banks than the ones the Treasury had proposed for comment in August.

The rules clarify that a bank is required to report total daily transactions for one customer in excess of $10,000 even if these were carried out for lesser amounts in multiple transactions at different branches.

On one particularly controversial point, though, the department said it has not yet reached a decision. The agency had initially proposed requiring financial institutions to record and report cash purchases of "monetary instruments" of more than $3,000. Current reporting is for transactions of $10,000 or more.

Monetary instruments are defined in the new rule as personal checks, cashier's checks, travelers checks, promissory notes, checks made out to "fictitious payees," and certain other checks.

The Treasury and Justice departments had said in August the reporting of monetary instruments in excess of $3,000 would help the government keep track of efforts to evade statutory requirements that currency transactions of $10,000 be reported. The Au-

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April 7, 1987

Financial Services Companies Spent More on TV Ads in '86

By PHILIP T. SUDO

NEW YORK — Television advertising by financial services companies rose 21% last year, nearly triple the rate for television advertisers overall, according to a recent study.

The Television Bureau of Advertising, or TvB, a New York-based trade group, said financial services companies spent $857 million in 1986 for national and local spot television commercials, compared to $709.6 million the year before.

The study, released late last month, is based on data compiled by Broadcast Advertisers Reports. It placed financial services sixth among the various industries using television to advertise, following food and food products, automobiles, fast food, toiletries, and proprietary medicines.

"Financial services is clearly a strong growth category," said Richard Severance, senior vice president of the group. "The general reason is the consolidation in the industry and the increased competitiveness."

Insurance companies spent $263.7 million on television advertising last year, a 32% hike over 1985 and more than any other financial services sector.

Banks and thrifts were the next biggest spenders, increasing their television spending 10% to $219.5 million. First Interstate Bancorp led all banks with a $9.2 million budget for television, followed by BankAmerica Corp. at $6.7 million, a figure that includes advertising for subsidiary Seafirst Corp. in Seattle. Citibank was third, spending $4.1 million.

Spending figures for each company are broken out according to the type of financial service being offered, the study notes. For example, Citicorp's TV advertising costs for Diners Club Inc. are listed in the credit card category; costs for its savings bank subsidiaries are listed in the thrift category; ads for Citibank are listed under bank advertising.

In addition to insurers, banks, and thrifts, the study's financial services category included credit cards and traveler's checks, investment services, real estate, and consumer finance.

American Express Co. was the leading advertiser overall (including all financial services subsidiaries), allocating $80.5 million for television, 41% more than the year before. Sears, Roebuck and Co. followed with $73.2 million, a 110% increase due in large part to heavy marketing of the newly launched Discover card.

Blue Cross/Blue Shield led all insurers, spending $25.7 million, followed by Prudential Insurance Company of America ($24.3 million), Allstate In-

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1986 Television Advertising

Leading Commercial Banks

	1986	1985	% Chg.
First Interstate	$9,206,300	$8,748,800	+ 5
BankAmerica (Including Seafirst)	$6,675,300	$1,882,000	+255
Citibank	$4,075,100	$5,638,800	-28
Manufacturers Hanover	$4,029,100	$4,989,800	-19
Wells Fargo	$3,895,600	$2,014,300	+93
First Union	$3,269,000	$1,381,300	+137
Barnett Banks	$2,753,600	$1,844,100	+49
Texas Commerce	$2,347,800	$3,083,800	-24
Chemical Bank	$2,215,000	$1,791,600	+24
Sovran Banks	$2,166,700	$747,200	+190

SOURCE: Television Bureau of Advertising analysis of data compiled by Broadcast Advertisers Reports. For banks with other lines of business, only the bank-related advertising is included.

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Hibernia Profits as Judge Rules It Cannot Use 'Equalizer' Name

What better way to attract attention to a new product than to plug it with an unusual name? But that is not exactly what the Hibernia Bank in San Francisco had in mind when it changed the name of its Equalizer home equity line of credit to the "Bleep" account.

Originally dubbed the Equalizer, the account had to undergo a name change because Charles Schwab & Co. had first dibs on it. The San Francisco-based discount brokerage maintained in court that customers might confuse its computerized financial information service with the bank's credit product. A federal judge "barred use of the name [Equalizer] because of a possibility of confusion," said a Hibernia spokeswoman.

In response to the judge's decision, Hibernia ran a series of commercials for the equity line, but instead of the original Equalizer name, the bank dubbed in an electronic bleep. At the end of each ad, a live tag was added explaining the reason for the bleep.

"The product had been successful in general," said the spokeswoman, "but since the bleep was introduced, there has been a possible 20% increase [in demand]." The electronic bleep apparently piqued people's interest, since they called up branches demanding more information, she said.

The Monitor

The name was changed, after more than a month, to HiberniaLine. Even without a bleep, people are still interested in the product, said the spokeswoman.

BANK SPONSORS CHESS TOURNEY: About a dozen Burlington, Vt.-area high school teams will try to outsmart nationally ranked master David Carter at a game of chess.

The competition between Mr. Carter, a Howard Bank employee, and the students is being cosponsored by Burlington-based Howard Bank and the Vermont Chess Association. It will take place at the Essex Junction Educational Center on April 11.

Entrance fees, combined with a $250 gift from the Howard Bank, will amount to a prize of about $500 for the winning team.

The winnings will go specifically to fund a program of the school's choosing that encourages intellectual development.

ADVERTISING AGENCY SELECTED: First Security Corp., Salt Lake City, said its advertising will be handled by Borders, Perrin & Norrander Inc., a leading regional advertising agency based in Portland, Ore. By recently merging with Snedaker Communications Group Inc., the advertising agency easily met the $5.1 billion financial services company's requirement that its new agency have a Salt Lake City office. Borders, Perrin & Norrander bills more than $30 million of advertising annually. Clients include Blue Cross and Blue Shield in Oregon and Washington State and Kenworth Truck Co.

IMPROVING QUALITY OF SERVICE: Improving the quality of service will be one of the issues discussed at the Bank Administration Institute's National Conference on Retail Banking, to be held April 28-30 at the Hyatt Regency in Chicago. Charles B. Schwab, founder of the discount brokerage bearing his name, and Ron K. Glover, president of Travelers Cheque Group, American Express, will be among those advising on how to compete more successfully. The president of Hyatt Hotels Corp. and the president of ITT Life Insurance Corp. will also address the conference.

TELLER TRAINING PROGRAM: The Bank Administration Institute introduced a bank teller training program, Modern Teller Training 3, which emphasizes customer service. The program is divided into 10 separate handbook and video units, each stressing customer service and satisfaction. The video segments take the trainee through the handbook material step by step. Modern Teller Training 3 can be adapted to either class or individual instruction.

DEMOGRAPHIC SOFTWARE AVAILABLE TO BANKS: A computer program that can provide banks with customer base information by matching the household balances against special demographic tapes was recently introduced by Bank Marketing Services Inc., Cambridge, Mass. The data that may be extracted to make up customer profiles include: income, age range of head of household, type and value of dwelling, length of residence, and telephone number. These data could assist banks in planning their marketing campaigns and strategies.

BANKING FOR THE BLIND: Blind people can now conduct their banking business 24 hours a day on automated teller machines at 23 United Banks of Colorado locations. The Denver-based banking company has equipped the ATMs with instructions in braille that tell, in step-by-step sequence, how to withdraw cash, make deposits, transfer between accounts, and check account balances. United Banks says it is the first institution in the state to offer these customized ATMs.

GAUGING SELF-SERVICE SWITCHES: Synergistics Research Corp., an Atlanta-based research firm, has announced a new study. "The Transition to Electronic Self-Service at the Branch" will be an examination of consumer response to electronic self-service branch applications. Synergistics says the study will assist commercial banks, thrifts, credit unions, and equipment venders in developing and implementing successful branch self-service systems. The study will measure consumers' attitudes toward technology and branch activities, current branch and financial services usage, and consumers' orientation to self-service. The demand for electronic self-service for transactions, customer service, and sales applications will be assessed. Synergistics will report its findings in late May.

— Orest Mandzy

Financial Services Use More TV Ads

Continued from Page 8

surance Co. ($21.2 million), and Aetna Life & Casualty Co. ($16.3 million).

American Express led credit card and traveler's check advertisers by spending $66.4 million, followed by Discover ($25.23 million), MasterCard International Inc. (up 16% to $25.16 million), and Visa USA Inc. (down 18% to $14.8 million).

Shearson Lehman Brothers Inc. led the stockbrokers and investment advisers category, spending $12.8 million — twice its 1985 figure — followed by Merrill Lynch & Co. with $10.8 million (down 38%), and Dean Witter Reynolds Inc. with $9.5 million, a threefold increase.

Two of the biggest spending increases came from emerging regional banks: First Union Corp. in Charlotte, N.C., and Sovran Financial Corp. in Norfolk, Va. First Union placed sixth among banks by spending $3.3 million, a 137% increase. Sovran placed 10th with $2.2 million, a 190% increase.

There was similar volatility among spending by thrifts. H.F. Ahmanson, the Los Angeles-based holding company for Home Savings of America, remained the leading spender with $8.8 million, roughly the same as in 1985. But First Nationwide, after spending only $6,300 in 1985, placed second among thrifts with $5.5 million. Sears Savings Bank ranked seventh ($2 million) and Citicorp ninth ($1.7 million) after spending zero the year before.

"That is characteristic of an industry that hasn't matured within its customer base," Mr. Severance of TvB said. "What's happening is that people are trying to build an image for themselves — 'We are a *financial services* company' — or they spent a lot of money to build one last year and they no longer need to sustain it."

The preponderance of image ads is "clearly logical," he said. Given the consolidation taking place within the industry, financial services firms, and banks in particular, have found it easier to distinguish themselves through image than through products or prices.

"The most important asset a bank has is its loyal customer base," Mr. Severance said. "You don't get a loyal customer base with a short-term interest rate that's one-sixteenth of a percentage point lower than the other guy."

Mr. Severance said he expects financial services companies to increase their television advertising over the next 10 to 20 years.

"There's a gigantic marketing battle going on, and its going to continue for a long period of time," he said. "There are too many fights going on for it to be mature within 10 years. The regional banks are trying to get strong enough to resist Citibank when they open up interstate banking; insurers are being threatened by the encroachment of banks; everyone's trying to broaden the public's perception and get into other areas."

He likened the current advertising wars to those in the beer, airline, and telecommunications industries. The common denominator: deregulation.

"Television always benefits when an industry becomes more competitive," Mr. Severance said. "Deregulation is wonderful for TV." ■

1986 Television Advertising

For Financial Services Institutions

	1986	1985	% Chg.
Insurance	$263,732,200	$199,652,500	+32
Banks, Savings & Loans	$219,489,400	$199,709,800	+10
Credit Cards, Travelers' Checks	$145,121,200	$112,575,300	+29
Stockbrokers, Investment Services	$104,614,800	$ 84,683,300	+24
Real Estate	$ 74,112,600	$ 65,862,200	+13
Consumer Finance	$ 39,936,700	$ 36,932,500	+ 8
Insurance Agencies	$ 10,007,000	$ 10,220,600	- 2
ALL FINANCIAL SERVICES	$857,013,900	$709,636,200	+21

SOURCE: Television Bureau of Advertising analysis of data compiled by Broadcast Advertisers Reports.

TV Ad Use Grows As Banks Spread Across State Lines

By DON MUNRO

NEW YORK — Banking companies are relying more heavily on television advertising as they grow from large instate institutions to regional interstate companies, a television advertising executive said.

"If you're limited to one market, the use of television advertising is less effective," said Robert Grebe, a vice president at Television Bureau of Advertising, or TvB, a New York firm that helps networks sell ad space.

"But as banks become more regional," he continued, "television becomes more of a factor in their ad expenditures. That's what's happening."

As an example, Mr. Grebe cited the history of local, or spot television, and network television budgets at the First Interstate Bancorp, Los Angeles.

In 1980, one year before the Western Bancorp. unified its 21 banks in 11 western states under the First Interstate name, the company spent only $2.38 million on local television advertising.

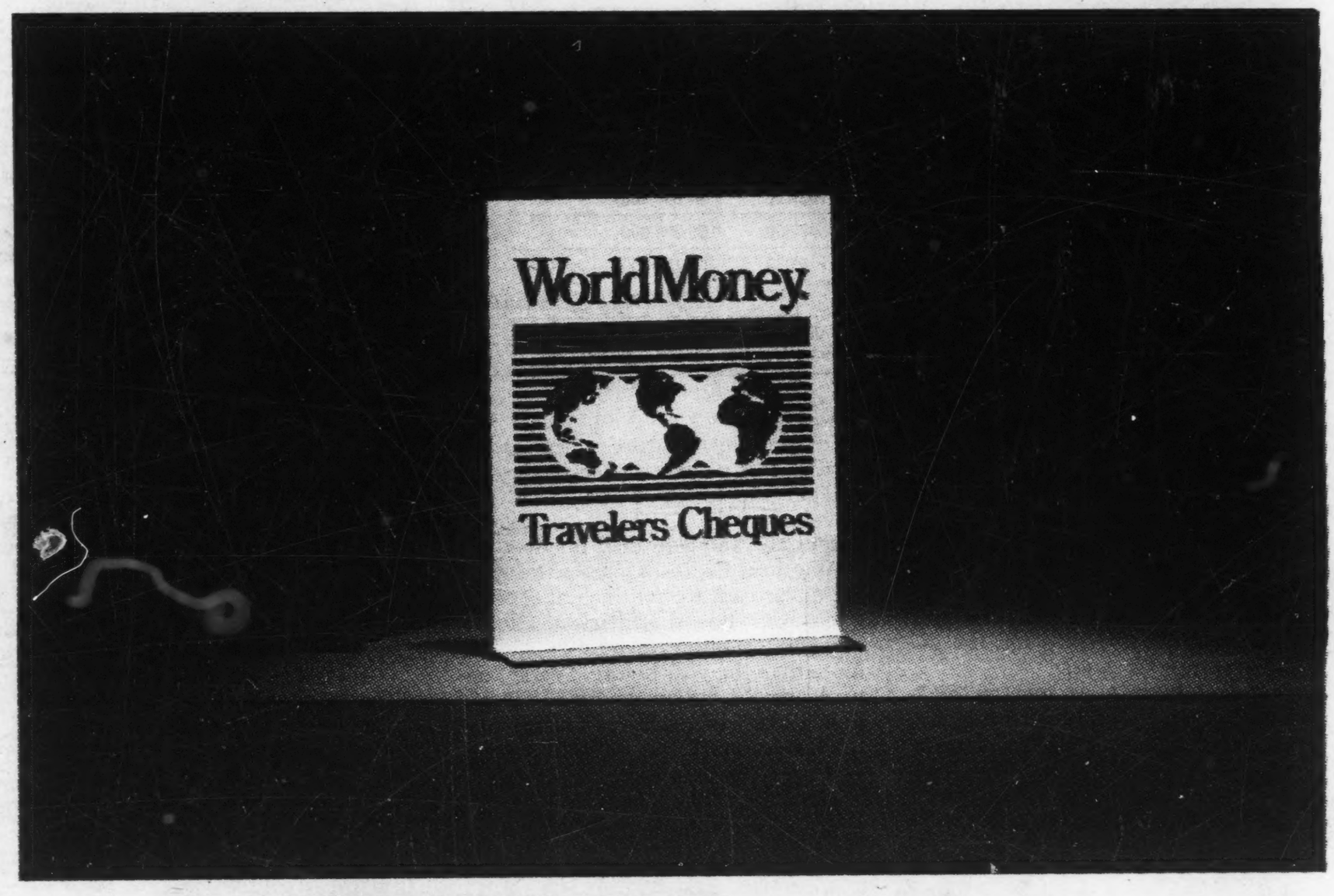
"The next year, the new name came, and local television spot expenditures went up to $4.71 million. And for the first time, the company advertised the First Interstate name in the western states on regional network television, spending $122,900," Mr. Grebe noted.

"If you look back at those two years, you see that in one year alone expenditures doubled," he said. "Today, [First Interstate is] up to the $9.2 million level for television advertising," a 5% increase over 1986 expenditures, according to a recent study the group released.

However, television advertising is not the only medium available to growing regional bank holding companies.

"Television advertising becomes more effective if you can cover a region that way," said Paul Minch, a senior vice president at First Interstate. "But

TV Ads: Page 11



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